



KENTUCKY RETIREMENT SYSTEMS UPDATE

PRESENTED BY

William A. Thielen, Chief Operations Officer
Kentucky Retirement Systems
June 11, 2009

*KENTUCKY PUBLIC RETIREES 26TH ANNUAL CONFERENCE
KENTUCKY DAM VILLAGE STATE PARK*

Kentucky Retirement Systems

- Legislative Overview
- System Funding
- Investment Performance and Market Conditions
- START
- Questions and Answers

Legislative Overview

- HB 117 – (Passed by General Assembly)
 - Extend the phase-in period for CERS employers to reach 100% of the health insurance ARC
- HB 323 – (Did not pass)
 - Cleanup bill for HB 1
 - Change KRS 18A to allow retired-reemployed members to be eligible for group life insurance
 - Change KRS 78.510 to allow KRS to add fiscal years as necessary in calculating average final compensation for classified school board employees

Legislative Overview

- HB 380 – (Did not pass)
 - Change the composition of the KRS Investment Committee
- HB 416 – (Passed by General Assembly)
 - KRS housekeeping bill
 - Clarifies that the health insurance trust is established under Section 115 of the IRC
 - Clarifies language on benefits paid for death prior to retirement

Legislative Overview

- SB 112 – (Did not pass)
 - Change KEHP participation rules for agencies created through interlocal agreement
- SB 140/HB 415 – (Did not pass)
 - Increase in-line-of-duty death benefits
- HB 212 – (Did not pass)
 - Change provisions of HB 1 regarding CERS employers paying into retirement for re-employed retirees
- HB 421 – (Did not pass)
 - Establish a DROP program for CERS hazardous

Legislative Overview

- Senate President / Speaker of the House joint press conference, March 13, 2009
 - *We need to do something about benefits for future employees—we cannot afford the benefit structure*

KRS Pension Funding Status

	As of <u>6/30/08</u>	As of <u>6/30/07</u>
KERS Non-Haz	52.5%	56.9%
KERS Haz	81.3%	83.6%
CERS Non-Haz	78.5%	82.1%
CERS Haz	72.9%	74.2%
SPRS	59.8%	63.7%

KRS Insurance Funding Status

	As of <u>6/30/08</u>	As of <u>6/30/07</u>
KERS Non-Haz	11.1%	11.9%
KERS Haz	53.2%	49.8%
CERS Non-Haz	32.6%	28.8%
CERS Haz	34.7%	31.2%
SPRS	27.8%	26.6%

Unfunded Accrued Actuarial Liability

As of June 30, 2008

EXPRESSED IN (\$) BILLIONS

	<u>Pension</u>	<u>Insurance</u>
KERS Non-Haz	\$4.810	\$4.828
KERS Haz	\$0.115	\$0.253
CERS Non-Haz	\$1.572	\$2.414
CERS Haz	\$0.652	\$1.156
<u>SPRS</u>	<u>\$0.236</u>	<u>\$0.321</u>
TOTAL	\$7.385	\$8.972

KRS Pension Funding Status

- What is the Unfunded Liability?
 - The value of all of our assets minus the value of benefits (liability) already earned by our current members
- KRS Unfunded Liability as of June 30, 2008
 - \$16.3 Billion

KRS Pension Funding Status

- What causes the unfunded liability?
 - Unfunded COLA for retirees
 - Investment returns less than assumed
 - Health care inflation
 - Employers paying less than their required share
 - Retroactive benefit increases

KRS Pension Funding Status

- How do we correct the unfunded liability?
 - Employers must pay their required share
 - Investment returns must improve
 - No retroactive benefit changes by the legislature
 - Control the cost of health care
 - Eliminate unfunded COLA's

KRS Funding Plan

(Per HB 1 – 2008 Special Session)

	Percentage of ARC		
Fiscal Year (Begins July 1)	KERS Nonhazardous	KERS Hazardous	State Police Retirement System
2010	44%	76%	60%
2011	48%	79%	65%
2012	53%	83%	70%
2013	57%	86%	75%
2014	61%	89%	80%
2015	65%	92%	85%
2016	69%	95%	90%
2017	73%	98%	95%
2018	77%	100%	98%
2019	81%		100%
2020	85%		
2021	89%		
2022	93%		
2023	97%		
2024	100%		

Investment Market Performance

- Actuarially assumed rate of return is +7.75%
- As of April 30, 2009

	YTD 2009	Last 12 mos.
— DOW	-6.92%	-36.29%
— S&P 500	-3.37%	-37.01%
— NASDAQ	+8.89%	-29.12%

KRS Pension Investment Performance

As of 4/30/09

	<u>KRS*</u>	<u>DOW</u>	<u>S&P 500</u>
CY 2008	-23.91%	-33.84%	-38.49%
Fiscal YTD	-20.79%	-28.03%	-31.81%
Last 12 mos.	-23.83%	-36.29%	-37.01%
Mar 09	+5.56%	+7.35%	+9.39%

*Top 20% of all pension funds nationwide for 2008

KRS Investments

- How do we improve performance?
 - Diversify the portfolio
 - Structure the portfolio to maximize returns for an acceptable level of risk
 - Eliminate underperforming money managers
 - Maximize our cash position to have mobility in the market when conditions improve
 - Develop a long term strategy and stay the course!

START

- Strategic Technology Advancements for the Retirement of Tomorrow
- \$23 million technology upgrade project to improve business processes and level of service

START - Employers

- Electronic submission of monthly contributions with EFT draft capability
- Electronic submission of monthly service reports
 - Online, via secure internet connection
 - Electronic file transfer (FTP protocol)

START - Employers

- Focus groups with employer agencies, communications from KRS
 - Features and capabilities of reporting and contribution system
 - Guidelines to prepare for START implementation
 - Timelines for planning and testing START
 - Employer training
 - Hotline/helpdesk assistance for employers

